



Q1
2006



Day Software Report for the First Quarter of Fiscal Year 2006

Results in Detail

Revenues for the first quarter of 2006 amounted to CHF 5.2 million, as compared to CHF 4.1 million for the first quarter of 2005. License revenues for the first quarter of 2006 amounted to CHF 2.1 million or 40% of total revenues, as compared to CHF 1.9 million for the first quarter of 2005 or 46% of total revenues. Product support and services revenues for the first quarter of 2006 increased 41% to CHF 3.1 million, as compared to CHF 2.2 million for the first quarter of 2005. The increase in revenues from 2005 to 2006 is due to increase in product support revenues due to growing customer base and increase in license and service revenues resulting from new OEM agreements in the first quarter of 2006.

In the first quarter of 2006, Day generated revenues of CHF 2.2 million, CHF 2.5 million and CHF 0.5 million in Europe, the Americas and Asia Pacific, respectively. The United States was Day's largest contributor of revenues in the first quarter of 2006.

Revenues for the first quarter of 2006 increased 4% to CHF 5.2 million, as compared to CHF 5.0 million for the fourth quarter of 2005. License revenues for the first quarter of 2006 decreased 19% to CHF 2.1 million, as compared to CHF 2.6 million for the fourth quarter of 2005. Product support and services revenues for the first quarter of 2006 increased 29% to CHF 3.1 million, as compared to CHF 2.4 million for the fourth quarter of 2005.

Gross profit for the first quarter of 2006 increased 37% to CHF 4.1 million, as compared to CHF 3.0 million for the first quarter of 2005 and increased 5% from CHF 3.9 million for the fourth quarter of 2005. The gross profit margin for the first quarter of 2006 increased to 79%, as compared to 73% in the first quarter of 2005 and 78% in the fourth quarter of 2005. This increase in gross profit margin is due to the increase in software license and product support revenues, which produce higher margins as compared to service revenue.

Operating expenses for the first quarter of 2006 increased 7% to CHF 3.2 million, as compared to CHF 3.0 million for the first quarter of 2005. Research and development expenses increased 38% due to capitalization of TCHF 209 of software development costs on 2 new products in the first quarter of 2006 as compared to capitalization of TCHF 475 of software development costs on 1 new product in the first quarter of 2005. Sales and marketing expenses increased 4% due to increase in commissions as a result of the increase in revenues. General and administrative expenses decreased 4%. Operating expenses for the first quarter of 2006 included TCHF 120 of share-based compensation expense.

Net income for the first quarter of 2006 was TCHF 915, as compared to net income of TCHF 120 for the first quarter of 2005 and net loss of TCHF 187 for the fourth quarter of 2005. Basic earnings per share was CHF 0.67 for the first quarter of 2006, as compared to basic earnings per share of CHF 0.10 for the first quarter of 2005 and basic loss per share of CHF 0.14 for the fourth quarter of 2005. Dilutive earnings per share was CHF 0.63 for the first quarter of 2006, as compared to dilutive earnings per share of CHF 0.09 for the first quarter of 2005 and dilutive loss per share of CHF 0.14 for the fourth quarter of 2005.

Employees

Total headcount as of March 31, 2006 and 2005 was 77 and 84 full time employees, respectively. Headcount as of March 31, 2006 was allocated as follows: professional services 18%, research and development 27%, sales and marketing 21%, general and administration 12% and MarketingNet 22%.

Consolidated Balance Sheets

(in thousands CHF, except share information)

(unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	6,175	4,256
Restricted cash	-	263
Accounts receivable, net of allowance	5,782	7,224
Unbilled receivables	2,098	1,334
Other receivables	41	19
Prepaid expenses	699	272
Total current assets	14,795	13,368
Non-current assets		
Property and equipment, net	119	129
Capitalized software development costs, net	1,389	1,217
Investments, net	198	200
Goodwill and intangible assets, net	3,278	3,324
Other assets	98	395
Total non-current assets	5,082	5,265
TOTAL ASSETS	19,877	18,633
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	460	615
Deferred revenue	4,363	3,820
Other current liabilities	184	437
Accrued liabilities	1,520	2,070
Total current liabilities	6,527	6,942
Deferred revenue less current portion	804	547
Total liabilities	7,331	7,489
Shareholders' equity		
Share capital, CHF 10.00 par value; 1,369,053 shares issued and outstanding, 496,000 additional authorized and 552,601 conditional as of March 31, 2006; 1,353,570 shares issued and outstanding, 496,000 additional authorized and 568,084 conditional as of December 31, 2005.	13,691	13,536
Treasury shares	(1,075)	(1,227)
Additional paid-in capital	139,472	139,256
Accumulated deficit	(138,996)	(139,911)
Accumulated other comprehensive loss	(546)	(510)
Total shareholders' equity	12,546	11,144
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	19,877	18,633

Consolidated Statements of Operations

(in thousands CHF, except share and per share information)

(unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues		
Software licenses	2,061	1,904
Product support and services	3,129	2,223
Total revenues	5,190	4,127
Cost of revenues		
Software licenses	48	1
Product support and services	1,048	1,084
Total cost of revenues	1,096	1,085
Gross profit	4,094	3,042
Operating expenses		
Research and development	659	478
Sales and marketing	1,782	1,711
General and administrative	726	754
Amortization of intangible assets	47	47
Income from operations	880	52
Interest income	9	5
Interest expense	-	-
Foreign exchange gain	27	19
Other income	7	47
Income before taxes	923	123
Provision for taxes	(8)	(3)
Net income	915	120
Basic earnings per share	0.67	0.10
Dilutive earnings per share	0.63	0.09
Shares used in computing basic earnings per share	1,356,228	1,208,892
Shares used in dilutive basic earnings per share	1,446,118	1,325,029

Consolidated Statements of Cash Flows

(in thousands CHF)
(unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net income	915	120
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization of fixed assets	21	231
Amortization of intangible assets	47	47
Amortization of capitalized software costs	37	-
Net foreign currency exchange gain	(25)	(15)
Share-based compensation	125	7
Stock received in exchange for software	-	(129)
Changes in operating assets and liabilities		
Accounts receivable	1,389	(1,437)
Unbilled receivables	(491)	(858)
Prepaid expenses and other current assets	(186)	(108)
Other assets	32	(217)
Accounts payable	(153)	176
Deferred revenues	812	1,446
Accrued liabilities	(536)	(421)
Other current liabilities	(247)	68
Net cash provided by (used) in operating activities	1,740	(1,090)
Cash flows from investing activities		
Capitalized software development cost	(209)	(475)
Purchases of equipment	(10)	(6)
Net cash used in investing activities	(219)	(481)
Cash flows from financing activities		
Proceeds from stock option exercises	194	293
Purchase of treasury shares	(434)	(38)
Proceeds from sale of treasury shares	638	35
Net cash provided by financing activities	398	290
Net increase (decrease) in cash and cash equivalents	1,919	(1,281)
Foreign currency adjustment on cash	-	31
Cash and cash equivalents at beginning of period	4,256	4,500
Cash and cash equivalents at end of period	6,175	3,250

Consolidated Statements of Shareholders' Equity

(in thousands CHF, except share information)

(unaudited)

	Share Capital		Treasury Shares	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balances							
January 1, 2005	1,209,654	12,097	(1,074)	138,299	(140,652)	(589)	8,081
Proceeds from exercise of stock options	35,916	359	-	85	-	-	444
Net proceeds from issuance of share capital	108,000	1,080	60	834	-	-	1,974
Purchase of treasury shares	-	-	(1,222)	-	-	-	(1,222)
Proceeds from sale of treasury shares	-	-	1,009	16	-	-	1,025
Stock-based compensation	-	-	-	22	-	-	22
Net income	-	-	-	-	741	-	741
Foreign currency translation	-	-	-	-	-	79	79
Balances							
December 31, 2005	1,353,570	13,536	(1,227)	139,256	(139,911)	(510)	11,144
Proceeds from exercise of stock options	15,483	155	-	39	-	-	194
Purchase of treasury shares	-	-	(434)	-	-	-	(434)
Proceeds from sale of treasury shares	-	-	586	52	-	-	638
Share-based compensation	-	-	-	125	-	-	125
Net income	-	-	-	-	915	-	915
Foreign currency translation	-	-	-	-	-	(36)	(36)
Balances							
March 31, 2006	1,369,053	13,691	(1,075)	139,472	(138,996)	(546)	12,546

Notes to Consolidated Interim Financial Statements

(in thousands of CHF, except share information)

(unaudited)

Note 1 – Organization and History

The Company

Day Software Holding AG (collectively with its subsidiaries, the “Company”) was formed on October 29, 1999, as a stock corporation under the laws of Switzerland. The Company is an international provider of global content and infrastructure software. The Company’s technology Communiqué offers a comprehensive, rapidly deployable framework to unify and manage all digital business data, systems, applications and processes through the web. Communiqué’s content-centric architecture and its innovative ContentBus turn the entire business into a virtual repository, bringing together content from any system, regardless of location, language or platform. The Company’s technology, CRX, is a java content repository that fully implements the new Java Content Repository API (JCR) standard that makes high value content easily accessible for any application. CRX is the first commercially available, industry strength implementation of the groundbreaking new JSR 170 standard for content repositories. The Company’s products and services are marketed throughout Europe, the Americas and Asia Pacific.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). Certain amounts reported in previous years have been reclassified to conform to the 2006 presentation.

These unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes related thereto for the period ended December 31, 2005, included in the Company’s Annual Report. The unaudited consolidated interim financial statements include all adjustments necessary to present fairly the Company’s consolidated financial position as of March 31, 2006, notes explaining any significant changes that have occurred since December 31, 2005 and the consolidated results of its operations and cash flows for the three months ended March 31, 2006. The consolidated results of such interim periods are not necessarily indicative of the results to be achieved for the period ended December 31, 2006.

Principles of Consolidation

The accompanying unaudited consolidated interim financial statements include the accounts of Day Software Holding AG and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 3 – Investments

The Company has an equity investment before impairment charges totaling TCHF 167 in common stock and TCHF 104 in preferred stock of a non-publicly traded company (“investee”). The Company’s Chief Financial Officer was a member of the Board of Directors of the investee company when these investments were transacted, but he resigned from his position in 2005. Common stock was acquired in March of 2005 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to the value of the software license and maintenance exchanged. Preferred stock was acquired in 2004 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to recent private-placement sales of the investee’s common stock. In 2005, the Company acquired additional common and preferred stock in the investee company and received a note receivable for TCHF 33 from the investee company in exchanged for cash of TCHF 33. The Company’s total ownership percentage in the investee company as of March 31, 2006 and December 31, 2005 was 14.65%.

Impairment in value of cost method investments that are considered to be other-than-temporary are recognized immediately as expense and a new cost basis is established. A cost method investment is evaluated for impairment whenever events or circumstances indicate that the investment may be impaired. During 2005, the Company determined that an impairment of TCHF 73 existed on its investments. There were no impairment charges during the three months ended March 31, 2006.

The carrying value of the investment was TCHF 198 and TCHF 200 as of March 31, 2006 and December 31, 2006, respectively.

Note 4 – Capitalized Software Development Costs

Statement of Financial Accounting Standard No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, requires development costs incurred in the research and development of new software products to be sold or marketed to be expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to recoverability, until the software products are available for sale. Software costs capitalized during the three months ended March 31, 2006 and 2005 totaled TCHF 209 and 475, respectively. Monthly amortization of capitalized software development costs, charged to cost of revenues, will be equal to the greater of the amount calculated by the straight-line method over the estimated life of the product or the amount calculated by using the ratio that current gross revenues bear to total estimated gross revenues of the product. Amortization expense for the three months ended March 31, 2006 and 2005 was TCHF 37 and 0, respectively.

Note 5 – Shareholders' Equity

In June 2005, Day issued 108,000 shares of authorized capital to a group of investors ("Investors"). Net proceeds from the transaction totaled TCHF 1,914. In connection with the transaction, the Company incurred TCHF 415 of costs that have been recorded as a reduction in capital reserves. These transaction costs include TCHF 60 of costs to acquire 3,000 treasury shares at a price of CHF 20 per share from the Company's Chief Executive Officer. The Company also paid fees totaling TCHF 25 to the Company's Chief Executive Officer's wife for legal services related to the transaction. In connection with the transaction above, the Investors have the right to acquire 12,000 shares at a price of CHF 10.00 per share if the average price of a share becomes less than the original issue price during the period starting on July 1, 2005 and ending on June 30, 2006. The Investors have deposited TCHF 120 in a non-interest bearing bank account to be used to acquire these additional shares. Any funds not used to acquire additional shares shall be contributed to the Company as additional paid-in capital.

Note 6 – Share-based Compensation

The Company has two stock option plans, the Day Interactive Holding AG International Stock Option Plan (the "International Option Plan") and the Day Interactive Holding AG United States Stock Option Plan (the "United States Option Plan"). Both the International Option Plan and United States Option Plan are administered by the Board of Directors, which determines the terms and conditions of the options granted, including exercise price, number of options granted and the vesting period of such options. Substantially all of the stock options outstanding vest over a 2 to 4 year period all and have an exercise price equal to the market value on date of grant. The maximum term of options granted under the International Option Plan and the United States Option Plan is ten years. The maximum shares of capital stock for issuance under the United States Option Plan and the International Option Plan is 373,595 and 186,800, respectively.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R establishes accounting guidance for transactions in which an entity awards its equity instruments in exchange for employee services. The cost of the employee's service is measured based on the grant dated fair value of the equity instrument, adjusted for estimated forfeiture rate, and is expensed over the vesting period of the equity instrument. SFAS 123R applies to all awards granted, modified, repurchase or cancelled after SFAS 123R is adopted. The Company is using the modified prospective method established under SFAS 123R to account for all unvested awards granted prior to January 1, 2006. Under the modified prospective method, share-based compensation expense is calculated by taking the grant date fair market value of the award calculated under SFAS 123 and expensing it over the remaining vesting period.

Share-based compensation expense included in the consolidated statement of operations for the three months ended March 31, 2006 is as follows:

In thousands CHF	2006
Cost of revenues	5
Research and development	69
Sales and marketing	11
General and administrative	40
Total share based compensation expense	125

For the three months ended March 31, 2006, the Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model as prescribed by SFAS No. 123R using the assumptions in the following table. The risk free interest rate under the International Option Plan is based on the Swiss Confederation bond yield during the option grant period. The risk free interest rate under the United States Option Plan is based on the U.S. Treasury yield curve during the option grant period. The expected life is calculated taking an average between the option vesting term and the contractual term. The expected volatility is based on historical volatility. The forfeiture rates are based on historical forfeitures.

Risk free interest rate under International Option Plan	2.25%
Risk free interest rate under United States Option Plan	4.50%
Expected life (years)	5
Expected volatility	43.7%
Forfeiture rate under International Option Plan	14.51%
Forfeiture rate under United States Option Plan	6.1%
Dividend yield	-

The weighted average grant date fair value for options issued during the three months ended March 31, 2006 was CHF 10.11.

Stock option activity under the International Option Plan and United States Option Plan for the three months ended March 31, 2006 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 2005	307,672	17.93
Granted	33,800	23.01
Exercised	(15,483)	12.55
Cancelled	(500)	28.50
Outstanding, March 31, 2006	325,489	18.69

The following table summarizes information regarding stock options as of March 31, 2006:

Range of Exercise Prices On Options Outstanding	Options Outstanding As of March 31, 2006	Weighted Average Contractual Life Remaining on Options Outstanding (Years)	Weighed Average Exercise Price On Options Outstanding	Options Exercisable As of March 31, 2006	Weighed Average Exercise Price On Options Exercisable
10.00 - 14.00	101,120	4.79	12.23	97,773	12.18
15.05 - 19.75	57,132	5.35	17.32	41,367	17.19
20.10 - 24.30	140,164	6.83	21.20	69,149	20.48
25.00 - 29.00	7,073	4.19	26.38	6,685	26.27
35	20,000	3.59	35.00	20,000	35.00
Totals	325,489			234,974	

Prior to January 1, 2006, the Company applied the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"), and related interpretations including Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25 ("FIN 44"). Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price or the exercise price is not fixed at the date of grant. Such compensation expense, if any, is recognized over the service period to which the option relates. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure ("SFAS No. 148"), established accounting and disclosure requirements using a fair value based method of accounting for stock-based compensation plans. As permitted by SFAS 123, the Company adopted only the following disclosure requirements of SFAS 123, as amended.

Effect on net income had the Company applied the fair value based method to all outstanding and unvested awards during the three months ended March 31, 2005:

In thousands CHF except per share data	2005
Net income, as reported	120
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	293
Net loss, pro forma	(173)
Basic earnings per share, as reported	0.10
Basic loss per share, pro forma	(0.14)
Dilutive earnings per share, as reported	0.09
Dilutive loss per share, pro forma	(0.14)

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model as prescribed by SFAS No. 123 using the following assumptions for options granted during the three months ended March 31, 2005:

	2005
Risk free interest rate	2.25%
Expected life (years)	5
Expected volatility	86%
Dividend yield	-

Note 7 – Segment Information

The Company operates predominantly in a single industry segment as a provider of enterprise software and related services. The Company's reportable operating segments are based on geographic location, which are Europe, the Americas and Asia Pacific. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intergeographic revenues primarily represent intercompany revenues which are accounted for based on established sales prices between the related companies and are eliminated in consolidation.

Geographical revenue information is based on the origin of the sales. Segments by geographic area of origin are as follows for the three months ended March 31, 2006 and 2005:

In thousands CHF	2006	2005
Revenues		
Europe	2,442	2,390
Americas	2,516	1,728
Asia Pacific	476	39
Elimination of intergeographic revenues	(244)	(30)
Total revenues	<u>5,190</u>	<u>4,127</u>
Net Income (Loss)		
Europe	(413)	(622)
Americas	1,328	742
Total net income	<u>915</u>	<u>120</u>
Assets		
Europe	14,133	11,407
Americas	5,744	2,895
Total assets	<u>19,877</u>	<u>14,302</u>

Note 8 – Earnings Per Share

Basic earnings per share is computed by dividing net income available to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share calculated for the three months ended March 31, 2006 and 2005 is computed by dividing net income available to shareholders by the weighted average number of shares outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method. Potentially dilutive common shares include outstanding stock options. Common stock equivalents totaling 107,359 and 30,749 have been excluded from the calculation of the weighed average shares outstanding for the three months ended March 31, 2006 and 2005, respectively, as the effects are anti-dilutive.

Note 9 – Commitments and Contingencies

Indemnification Clauses in Software License Agreements

The Company's standard software license agreement includes an indemnification clause that indemnifies the licensee against liability and damages arising out of or in connection with an assertion that the software infringes any United States trademark or copyright. Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", requires certain disclosures regarding intellectual property infringement indemnification. To date, the Company has had no material claims or costs related to these indemnification clauses and therefore, has no liability recorded related to these indemnification clauses as of March 31, 2006.

About Day (www.day.com)

Day is a provider of integrated content, portal and digital asset management software. Day's technology Communiqué offers a comprehensive, rapidly deployable framework to unify and manage all digital business data, systems, applications and processes through the web. Communiqué's content-centric architecture, and its innovative ContentBus, turns the entire business into a virtual repository bringing together content from any system, regardless of location, language or platform.

Day is an international company, founded in 1993, and listed on the SWX Swiss Exchange (SWX:DAYN) since April 2000. Day's customers are some of the largest global corporations and include Audi, DaimlerChrysler, Deutsche Post World Net, Intercontinental Hotels Group, McDonald's, UBS and Volkswagen.

Forward-looking Statements

This report may contain forward-looking statements regarding future events or the future performance of Day Software Holding AG and its subsidiaries (the "Company"). Words such as "expects," "plans," "believes," "may," "will," and variations of these words or similar expressions are intended to identify forward-looking statements. These statements speak only as of the date hereof. Such information is subject to change, and the Company will not necessarily inform you of such changes. Actual events or results, of course, could differ materially and adversely from those expressed in any forward-looking statement. There is currently no public trading market in the United States for the Company's stock, and the Company does not make filings (e.g., Forms 10-K and 10-Q) with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

For further information

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